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S E C R E T SECTION 01 OF 02 ABU DHABI 000361

NOFORN
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DEPARTMENT FOR NEA/FO, NEA/ARP (BMASILKO) AND EEB
STATE PLEASE PASS USTR (BUNTIN)

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TAGS: ECON EFIN EINV ENRG PREL PGOV AE
SUBJECT: ABU DHABI GETS REAL

ABU DHABI 00000361 001.3 OF 002

Classified by Ambassador Richard Olson for reasons 1.4 (b,d).

REFS: A) ABU DHABI 239
B) DUBAI 12
C) 08 ABU DHABI 943

¶1. (C) Summary. While Abu Dhabi's economy still looks rosy compared to neighboring Dubai's, senior officials acknowledge that 2009 will be difficult. Even in traditionally wealthier and more conservative Abu Dhabi, firms and the Government are scrapping expansion plans and focusing on maintaining existing business. At the same time, Abu Dhabi investment firms, including ADIA, are well positioned to find deals in international markets, demonstrating that fundamentally Abu Dhabi's economy remains strong. End Summary.

¶2. (S) Senior ruling family members have frankly told us -- and the public -- that Abu Dhabi is facing an economic challenge. During an April 8 meeting, Chairman of the Abu Dhabi Finance Department (and son of UAE President Khalifa) Sheikh Mohammed bin Khalifa told the Ambassador the economic situation is a "disaster," noting that oil is hovering around the 2009 budget benchmark of USD 50/barrel. Other officials have admitted that major development projects and milestones are delayed. Crown Prince Sheikh Mohammed bin Zayed told visiting Special Representative for Afghanistan and Pakistan Richard Holbrooke on March 24 that the high profile Saadiyat Island project (Ref C) would not be completed until as late as 2013 (as opposed to the initial 2011 target), as the developers attempt to secure necessary financing. Senior officials at Mubadala - the Crown Prince's investment entity, which relied more heavily on leverage than other funds - have reported projects with existing financing will continue, but 2009 will be a year of consolidation. The Chairman of the Abu Dhabi Tourism Authority, Sheikh Tahnoun bin Ahmed, recently announced ADTA was only hoping to keep tourist revenues steady in 2009.

¶3. (C) While most remain confident that Abu Dhabi will weather the worst of the storm, it is clear that the boom times of early 2008 are over - at least for now. Low oil prices have begun to impact even ADNOC affiliates; Zakum Development Company officials told EmbOffs on April 5 that training was being cut as a result of financial belt tightening measures. Private sector contacts report layoffs in the real estate sector have begun and are likely to peak in the summer when schools close and families depart. U.S. firms report newly redundant expatriates are knocking on their doors, easing last year's staffing shortages. Retail sales are falling (Ref A) as many consumers delay major purchases due to weak consumer confidence and hopes retailers will cut prices further. As real estate prices continue to decline from 2008 highs, developers are announcing plans to downscale luxury residences to "affordable" housing. While affordable still means properties valued at over USD 300,000, developers such as Capitala have stated the once popular off-plan development model (Ref B) is no longer feasible.

¶4. (S/NF) Despite losses in 2008, most Abu Dhabi-based investment entities are well placed to find value in foreign investments, including the giant Abu Dhabi Investment Authority (ADIA). As the financial crisis unfolded and asset prices dropped globally, two camps emerged in ADIA: the pessimists and the optimists. The pessimists, led by ADIA MD Sheikh Ahmed bin Zayed and his powerful number two Majid Al Rumaithi, advocated repositioning ADIA's portfolio away from equities and into highly secure instruments. The optimists, led by Abu Dhabi Department of Finance Undersecretary Hamad Al Hurr Al Suwaidi and backed by ADIA CIO Jean Paul Villain, cautioned patience and a steady course. In the end, the optimists prevailed with one caveat: In 2007-2008, ADIA received a substantial influx of cash from skyrocketing oil receipts. These funds were predominantly invested in Treasuries and other highly rated debt (as opposed to ADIA's traditional asset allocation), except for the USD 7.5 billion investment in Citi that was described as small compared to the inflowing cash. As a result, ADIA feels well positioned to take advantage of new investment opportunities as the global economy recovers. Similarly, the smaller International Petroleum Investment Corporation (IPIC) continues to make foreign acquisitions (most recently adding a 37.5 percent stake in Spain's Cepsa) and officials report plans to increase its holdings over thirty percent by 2014. In March, Aabar Investments purchased a USD 2.65 billion stake in Daimler.

¶5. (C) The fundamental strength of Abu Dhabi's financial situation - and reputation - remains obvious. At the February International Defense Exhibition (IDEX), the UAE (banked by Abu Dhabi) announced over USD 4 billion in new defense procurement. Construction on the Formula One-themed Yas Island is on schedule for Abu Dhabi's first Formula One event in November. Abu Dhabi successfully floated a USD 3 billion sovereign bond issuance in April, paying 400 basis points over Libor for USD 1.5 billion in 5 year notes and 420 basis points for the remainder in 10 year bonds. Sheikh Mohammed bin Khalifa told

the Ambassador that Abu Dhabi did not "need" the money, but was seeking a presence in the market.

¶6. (C) Comment. Abu Dhabi has long been known as being more financially conservative than Dubai. The fact that major development here began in 2004 means that few projects are leveraged and demand, particularly for real estate, remains high. While 2009 may not be a banner year, Abu Dhabi is likely to be at the forefront of the global recovery. End Comment.
OLSON